

**FRANKFORT INDEPENDENT  
SCHOOL DISTRICT  
AUDIT REPORT  
JUNE 30, 2016**

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October 28, 2016

**INDEPENDENT AUDITOR'S REPORT**

Members of the Board of Education  
Frankfort Independent School District  
959 Leestown Lane  
Frankfort, KY 40601

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Frankfort Independent School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Frankfort Independent School District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract*, *Audit Acceptance Statement*, *AFR and Balance Sheet*, *Statement of Certification*, and *Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Frankfort Independent School District as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and, budgetary comparison information, and schedules of the district's proportionate share of net pension liabilities on Pages 4 through 10, 42 through 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Frankfort Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements, and the statement of receipts, disbursements and fund balance – High School Activity Fund are presented for the purpose of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the statement of receipts, disbursements and fund balance – High School Activity Fund, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, statement of receipts, disbursements and fund balance – High School Activity Fund and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements taken as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated October 28, 2016, on our consideration of Frankfort Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Frankfort Independent School District's internal control over financial reporting and compliance.

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants

**FRANKFORT INDEPENDENT SCHOOL DISTRICT – FRANKFORT, KY  
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2016**

As management of the Frankfort Independent School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements.

**FINANCIAL HIGHLIGHTS**

- The June 30, 2016 cash balance for the District was \$1,098,390 as compared with the beginning cash balance of \$814,475. The ending cash balance consists of General Fund of \$787,191, Special Revenue of \$15,911, Capital Outlay of \$8,093, Building (FSPK) Fund of \$217,185, Construction Fund of \$104,453, Food Service of \$(29,383) and Day Care of \$(5,060).
- District-wide net position decreased \$77,756 during the 2016 fiscal year. Total long-term obligations had a net increase of \$201,699.
- The General Fund had \$7,802,739 in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. There was \$7,374,662 in General Fund expenditures.
- General Fund revenue decreased \$59,306 from last fiscal year and General Fund expenses decreased \$333,266.
- The financial statements reflect revenues of \$1,751,417 from the state on-behalf of District employees for retirement contributions, health insurance, administration fees, debt service and technology with a like amount of expenses recorded.

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**District-wide financial statements**

The district-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 11-12 of this report.

### **Fund financial statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our food service and child care operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 13-21 of this report.

### **Notes to the financial statements**

The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements.

The notes to the financial statements can be found on pages 22-41 of this report.

## **DISTRICT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$1,402,074 as of June 30, 2016.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.



## Net Position for the period ending June 30, 2015 and June 30, 2016

A comparison of June 30, 2015 and June 30, 2016 government-wide net position is as follows:

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>
Current and Other Assets	\$ 1,019,174	\$ 1,380,021	\$ 20,219	\$ 23,212	\$ 1,039,393	\$ 1,403,233
Capital Assets	<u>8,793,916</u>	<u>8,343,974</u>	<u>295,656</u>	<u>260,556</u>	<u>9,089,572</u>	<u>8,604,530</u>
Total Assets	<u>9,813,090</u>	<u>9,723,995</u>	<u>315,875</u>	<u>283,768</u>	<u>10,128,965</u>	<u>10,007,763</u>
Deferred Outflows	<u>398,051</u>	<u>671,126</u>	<u>-</u>	<u>-</u>	<u>398,051</u>	<u>671,126</u>
Current Liabilities	632,417	673,727	505	11,628	632,922	685,355
Non-Current Liabilities	<u>8,209,264</u>	<u>8,390,722</u>	<u>-</u>	<u>-</u>	<u>8,209,264</u>	<u>8,390,722</u>
Total Liabilities	<u>8,841,681</u>	<u>9,064,449</u>	<u>505</u>	<u>11,628</u>	<u>8,842,186</u>	<u>9,076,077</u>
Deferred Inflows	<u>205,000</u>	<u>200,738</u>	<u>-</u>	<u>-</u>	<u>205,000</u>	<u>200,738</u>
<b>Net Position</b>						
Investment in capital assets						
(net of related debt)	2,392,975	2,323,974	295,656	260,556	2,688,631	2,584,530
Restricted	288,487	323,508	19,714	11,584	308,201	335,092
Unrestricted	<u>(1,517,002)</u>	<u>(1,517,548)</u>	<u>-</u>	<u>-</u>	<u>(1,517,002)</u>	<u>(1,517,548)</u>
<b>Total Net Position</b>	<u>\$ 1,164,460</u>	<u>\$ 1,129,934</u>	<u>\$ 315,370</u>	<u>\$ 272,140</u>	<u>\$ 1,479,830</u>	<u>\$ 1,402,074</u>

The following table presents changes in net position for the fiscal years ended June 30, 2016 and June 30, 2015.

	Governmental Activities		Business - Type Activities		Total Primary Government	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<b>REVENUES</b>						
Program revenues						
Charges for services	89,470	114,306	133,008	204,580	222,478	318,886
Operating grants/Contributions	1,045,456	1,018,436	545,871	571,964	1,591,327	1,590,400
Capital Grants/Contributions	51,275	58,385			51,275	58,385
Fund transfers/gain loss	3,110	(65,836)		65,836	3,110	
General revenues						
Property taxes	1,956,692	1,816,764			1,956,692	1,816,764
Motor vehicle taxes	92,503	93,337			92,503	93,337
Utility Taxes	783,974	820,734			783,974	820,734
Taxes, Other	4,863	13,575			4,863	13,575
Investment earnings	7,001	7,327			7,001	7,327
State and formula grants	5,221,817	5,331,061			5,221,817	5,331,061
Miscellaneous	138,210	135,515			138,210	135,515
<b>Total revenues</b>	<u>9,394,371</u>	<u>9,343,604</u>	<u>678,879</u>	<u>842,380</u>	<u>10,073,250</u>	<u>10,185,984</u>
<b>EXPENSES</b>						
Instructional	5,717,534	5,518,163			5,717,534	5,518,163
Student support	473,148	521,427			473,148	521,427
Instructional staff Support	526,369	560,313			526,369	560,313
District administrative support	297,774	217,611			297,774	217,611
School administrative support	558,155	571,654			558,155	571,654
Business support	303,937	335,561			303,937	335,561
Plant operations and maintenance	954,755	819,858			954,755	819,858
Student transportation	340,357	333,541			340,357	333,541
Community Service Operations	79,745	77,868			79,745	77,868
Other						
Interest on Long Term Debt	177,123	229,624			177,123	229,624
Business-type Activities						
Child Care			147,046	325,094	147,046	325,094
Food Service			575,063	556,434	575,063	556,434
<b>Total expenses</b>	<u>9,428,897</u>	<u>9,185,620</u>	<u>722,109</u>	<u>881,528</u>	<u>10,151,006</u>	<u>10,067,148</u>
<b>Increase (decrease) in net position</b>	<u>\$ (34,526)</u>	<u>\$ 157,984</u>	<u>\$ (43,230)</u>	<u>\$ (39,148)</u>	<u>\$ (77,756)</u>	<u>\$ 118,836</u>

On-behalf amounts are included in the above figures. On-behalf payments are payments the state makes on behalf of employees to the various agencies for health and life insurance, benefits, administration fees, technology and debt service. The total on-behalf payments for 2015 were \$1,859,309 and 2016 were \$1,751,417.

### **Governmental Activities**

For the governmental program expenses instructional expenses comprise 61% of total expenses, support services equate to 37%, and interest and other expenses make up the remaining 2% of the total.

The cost of program services and the charges for services and grants offsetting those services are shown on the Statement of Activities. The Statement of activities identifies the net cost of services supported by tax revenue and unrestricted intergovernmental revenues (State entitlements).

	Governmental Activities Total		Governmental Activities Net	
	Cost of Services		Cost of Services	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Instructional	\$ 5,717,534	\$ 5,518,163	\$ 4,874,584	\$ 4,595,302
Support Services	3,454,495	3,359,965	3,238,862	3,222,463
Other	79,745	77,868	3,402	5,489
Interest Costs	<u>177,123</u>	<u>229,624</u>	<u>125,848</u>	<u>171,239</u>
Total Expenses	<u>\$ 9,428,897</u>	<u>\$ 9,185,620</u>	<u>\$ 8,242,696</u>	<u>\$ 7,994,493</u>

### **Business-Type Activities**

The business type activities at the District are Food Service and Day Care. These programs had total revenues of \$ 678,879 and expenses of \$772,109 for fiscal year 2016. These revenues were made up of \$133,008 charges for services and \$545,871 federal and state operating grants. These business-type activities receive no support from tax revenues, and, as such, the District will continue to monitor these activities and make the necessary adjustments to the operations of these activities.

### **The School District's Funds**

The information relative to the School District's Funds starts on page 13. These funds use the modified accrual basis of accounting to account for each fund's revenues and expenses. The combined revenue for all governmental funds for 2016 was \$9,394,371 and expenditures were \$9,047,798. The net change in fund balance was a decrease of \$346,573.

### **General Fund Budgetary Highlights**

The District's budget is based on accounting for certain transactions on the cash basis for receipts and expenditures and encumbrances and is prepared according to Kentucky law. The Kentucky Department of Education requires a zero-based budget with any remaining fund balance to be shown as a contingency expense in the budgeting process.

The most significantly budgeted fund is the General Fund. The General Fund had budgeted revenues of \$7,773,629 with actual results being \$7,802,739 for a favorable difference of \$29,110. Budgeted expenditures were \$8,397,167 compared to actual expenditures of \$7,496,225 for a favorable difference of \$900,942. Both favorable differences were results of excess anticipated revenues and decreased costs within the District.

### Future Budgetary Implications

In Kentucky, the public schools fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District has adopted a budget for fiscal year 2016-2017 with a contingency in excess of the state minimum requirement.

Significant Board action that impacts the finances includes the Board's salary schedules which for both certified and classified staff. The State did not change the SEEK base of \$3,981 for FY 2017. While the District is not currently seeing significant growth in attendance and membership, it is spending additional money to make more opportunities available to segments of our population that have not seen adequate educational achievement. The District has attempted to remedy this inadequate growth by spending more on additional staff and professional development in addition to technology and materials for mathematics and literacy assessment and learning.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At the end of the 2016 fiscal year, the District had \$8,604,530 net of depreciation invested in a broad range of capital assets, including equipment, buses, buildings, and land. This amount represents a net decrease of \$485,042. Depreciation expense for the year was \$485,042 and there were no capital additions in the 2016 fiscal year. During the year no assets were retired.

	Governmental		Business - Type		Total Primary Government	
	Activities (Net of Depreciation)		Activities (Net of Depreciation)		(Net of Depreciation)	
	2016	2015	2016	2015	2016	2015
Land	\$ 798,379	\$ 798,379	\$ -	\$ -	\$ 798,379	\$ 798,379
Construction in Progress	-0-	-0-			-0-	-0-
Land Improvements	3,204	4,120	-	-	3,204	4,120
Buildings and Improvements	7,347,018	7,745,006	-	-	7,347,018	7,745,006
Technology	1,336	8,695	86	687	1,422	9,382
Vehicles	153,956	193,063	-	-	153,956	193,063
General Equipment	40,081	44,653	260,470	294,969	300,551	339,622
Total	\$ 8,343,974	\$ 8,793,916	\$ 260,556	\$ 295,656	\$ 8,604,530	\$ 9,089,572

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	2016	2015	2016	2015	2016	2015
Beginning Balance	\$ 8,793,916	\$ 8,126,185	\$ 295,656	\$ 331,085	\$ 9,089,572	\$ 8,457,270
Additions	-	1,091,800	-	-	-	1,091,800
Retirements	-	-	-	-	-	-
Depreciation	(449,942)	(424,069)	(35,100)	(35,429)	(485,042)	(459,498)
Ending Balance	\$ 8,343,974	\$ 8,793,916	\$ 260,556	\$ 295,656	\$ 8,604,530	\$ 9,089,572

**Long-Term Debt**

At June 30, 2016, the school district had \$6,020,000 in bonds outstanding, of which \$2,095,447 is to be paid from the SFCC funding provided by the State of Kentucky. A total of \$535,295 including interest is due within one year.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers and other interested readers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District's Superintendent or Finance Director at (502)875-8661.

FRANKFORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2016

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Cash & Cash Equivalents - Note C	1,132,833	(34,443)	1,098,390
Accounts Receivable:			
Taxes - Current	129,873		129,873
Taxes - Delinquent	6,097		6,097
Accounts	29,085	51,004	80,089
Intergovernmental - State	7,313		7,313
Intergovernmental - Federal	74,820		74,820
Inventories for Consumption		6,651	6,651
Total Current Assets	1,380,021	23,212	1,403,233
Noncurrent Assets - Note F			
Land	798,379		798,379
Buildings & Improvements	13,018,596		13,018,596
Furniture & Equipment	2,195,204	505,691	2,700,895
Less: Accumulated Depreciation	(7,668,205)	(245,135)	(7,913,340)
Total Noncurrent Assets	8,343,974	260,556	8,604,530
TOTAL ASSETS	9,723,995	283,768	10,007,763
Deferred Outflows Related to Pensions	522,353		522,353
Deferred Outflows Retlated to Advanced Bond Refundings	148,773		148,773
TOTAL ASSETS AND DEFERRED OUTFLOWS	10,395,121	283,768	10,678,889
LIABILITIES:			
Current Liabilities:			
Accounts Payable	32,520	11,628	44,148
Accrued Salaries & Sick Leave - Note A	86,122		86,122
Advances from Grantors	90,281		90,281
KSBIT Assessment	39,120		39,120
Bond Obligations - Note D	380,000		380,000
Accrued Interest Payable	45,684		45,684
Total Current Liabilities	673,727	11,628	685,355
Noncurrent Liabilities:			
Bond Obligations - Note D	5,640,000		5,640,000
Net Pension Liability	2,374,243		2,374,243
KSBIT Assessment - Note R	75,255		75,255
Accrued Sick Leave - Note A	301,224		301,224
Total Noncurrent Liabilities	8,390,722		8,390,722
TOTAL LIABILITIES	9,064,449	11,628	9,076,077
Deferred Inflows Related to Pensions	200,738		200,738
TOTAL LIABILITIES AND DEFERRED INFLOWS	9,265,187	11,628	9,276,815
NET POSITION:			
Net Investment in Capital Assets	2,323,974	260,556	2,584,530
Restricted for:			
Capital Projects	98,230		98,230
SFCC Escrow	225,278		225,278
Food Service		11,584	11,584
Unrestricted	(1,517,548)		(1,517,548)
TOTAL NET POSITION	1,129,934	272,140	1,402,074
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	10,395,121	283,768	10,678,889

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016

FUNCTION/PROGRAMS	PROGRAM REVENUES				NET(EXPENSE) REVENUE AND CHANGES IN NET POSITION		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL BUSINESS-TYPE		TOTAL
					ACTIVITIES	ACTIVITIES	
GOVERNMENTAL ACTIVITIES:							
Instructional	5,717,534	74,070	768,880		(4,874,584)		(4,874,584)
Support Services:							
Student Support Services	473,148		23,933		(449,215)		(449,215)
Staff Support Services	526,369		158,134		(368,235)		(368,235)
District Administration	297,774				(297,774)		(297,774)
School Administration	558,155				(558,155)		(558,155)
Business Support Services	303,937	15,400			(288,537)		(288,537)
Plant Operation & Maintenance	954,755				(954,755)		(954,755)
Student Transportation	340,357		18,166		(322,191)		(322,191)
Community Service Operations	79,745		76,343		(3,402)		(3,402)
Interest on Long-Term Debt	177,123			51,275	(125,848)		(125,848)
TOTAL GOVERNMENTAL ACTIVITIES	9,428,897	89,470	1,045,456	51,275	(8,242,696)		(8,242,696)
BUSINESS-TYPE ACTIVITIES:							
Day Care	147,046	86,259	60,787			0	0
Food Service	575,063	46,749	485,084			(43,230)	(43,230)
TOTAL BUSINESS-TYPE ACTIVITIES	722,109	133,008	545,871	0	0	(43,230)	(43,230)
TOTAL SCHOOL DISTRICT	10,151,006	222,478	1,591,327	51,275	(8,242,696)	(43,230)	(8,285,926)
GENERAL REVENUES:							
Taxes:							
Property					1,956,692		1,956,692
Motor Vehicle					92,503		92,503
Utility					783,974		783,974
Other					4,863		4,863
State Aid - Formula Grants					5,221,817		5,221,817
Investment Earnings					7,001		7,001
Miscellaneous					138,210		138,210
SPECIAL ITEMS:							
Gain(Loss) Sale of Assets					3,110		3,110
TOTAL GENERAL & SPECIAL					8,208,170	0	8,208,170
CHANGE IN NET POSITION					(34,526)	(43,230)	(77,756)
NET POSITION - BEGINNING OF YEAR					1,164,460	315,370	1,479,830
NET POSITION - ENDING					1,129,934	272,140	1,402,074

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2016

	GENERAL FUND	SPECIAL REVENUE	DEBT SERVICE	FSPK BUILDING FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:						
Cash & Cash Equivalents	787,191	15,911		217,185	112,546	1,132,833
Accounts Receivable:						
Taxes - Current	129,873					129,873
Taxes - Delinquent	6,097					6,097
Accounts	29,085					29,085
Intergovernmental - State	7,191			122		7,313
Intergovernmental - Federal		74,820				74,820
TOTAL ASSETS	<u>959,437</u>	<u>90,731</u>	<u>0</u>	<u>217,307</u>	<u>112,546</u>	<u>1,380,021</u>
LIABILITIES AND FUND BALANCE:						
Liabilities:						
Accounts Payable	25,725	450			6,345	32,520
Accrued Salaries & Sick Leave	3,660					3,660
Advances from Grantors		90,281				90,281
Total Liabilities	<u>29,385</u>	<u>90,731</u>	<u>0</u>	<u>0</u>	<u>6,345</u>	<u>126,461</u>
Fund Balance:						
Restricted for:						
Capital Projects				122	98,108	98,230
SFCC Escrow				217,185	8,093	225,278
Unassigned	930,052					930,052
Total Fund Balance	<u>930,052</u>	<u>0</u>	<u>0</u>	<u>217,307</u>	<u>106,201</u>	<u>1,253,560</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>959,437</u>	<u>90,731</u>	<u>0</u>	<u>217,307</u>	<u>112,546</u>	<u>1,380,021</u>

See independent auditor's report and accompanying notes to financial statements.



FRANKFORT INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2016

Amounts reported for governmental activities in the statement of net position are different because:

TOTAL GOVERNMENTAL FUND BALANCE		1,253,560
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets	16,012,179	
Accumulated Depreciation	<u>(7,668,205)</u>	8,343,974
Deferred Outflows Related to Bond Refundings are not a current asset and therefore are not reported as assets in governmental funds.		148,773
Deferred Outflows Related to Pensions are not a current asset and therefore are not reported as assets in governmental funds.		522,353
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds Payable	(6,020,000)	
KSBIT Assessment	(114,375)	
Net Pension Liability	(2,374,243)	
Accrued Interest on Bonds	(45,684)	
Accrued Sick Leave	<u>(383,686)</u>	(8,937,988)
Deferred Inflows Related to Pensions are not a current liabilities and therefore are not reported as liabilities in governmental funds.		<u>(200,738)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u><u>1,129,934</u></u>

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016

	GENERAL	SPECIAL REVENUE	DEBT SERVICE	FSPK BUILDING FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:						
Taxes:						
Property	1,763,815			120,457	72,420	1,956,692
Motor Vehicle	92,503					92,503
Utility	783,974					783,974
Other	4,863					4,863
Earnings on Investments	6,360				641	7,001
Intergovernmental - State	4,949,651	401,375	174,687	148,754		5,674,467
Intergovernmental - Federal		644,081				644,081
Other Sources	198,463	29,213	4			227,680
TOTAL REVENUES	7,799,629	1,074,669	174,691	269,211	73,061	9,391,261
EXPENDITURES:						
Instructional	4,377,675	803,147				5,180,822
Support Services:						
Student Support Services	430,073	25,000				455,073
Staff Support Services	345,817	165,182				510,999
District Administration	280,693					280,693
School Administration	537,598					537,598
Business Support Services	335,448					335,448
Plant Operation & Maintenance	789,230				36,015	825,245
Student Transportation	278,128	18,976				297,104
Community Service Operations		79,745				79,745
Debt Service:						
Principal			380,941			380,941
Interest			164,130			164,130
TOTAL EXPENDITURES	7,374,662	1,092,050	545,071	0	36,015	9,047,798
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	424,967	(17,381)	(370,380)	269,211	37,046	343,463
OTHER FINANCING SOURCES(USES):						
Proceeds from Sale of Assets	3,110					3,110
Operating Transfers In - Note N		17,381	370,380			387,761
Operating Transfers Out - Note N	(121,563)			(193,778)	(72,420)	(387,761)
TOTAL OTHER FINANCING SOURCES	(118,453)	17,381	370,380	(193,778)	(72,420)	3,110
NET CHANGE IN FUND BALANCES	306,514	0	0	75,433	(35,374)	346,573
FUND BALANCES - BEGINNING	623,538	0	0	141,874	141,575	906,987
FUND BALANCES - ENDING	930,052	0	0	217,307	106,201	1,253,560

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016

Amounts reported for governmental activities in the statement of net position are different because:

NET CHANGES - GOVERNMENTAL FUNDS		346,573
Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.		
Depreciation Expense	(449,942)	
Capital Outlays	<u>0</u>	
		(449,942)
Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.		
Principal Paid	380,941	
Proceeds from Note Payable	<u>0</u>	
		380,941
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.		
Amortization-Deferred Outflows on Advanced Refundings of Bonds	(17,888)	
District Pension Contributions	194,409	
Cost of Benefits Earned Net of Employee Contributions	(435,427)	
Accrued Interest Payable	4,895	
KSBIT Assessment	39,120	
Accrued Sick Leave	<u>(97,207)</u>	
		<u>(312,098)</u>
CHANGES - NET POSITION GOVERNMENTAL FUNDS		<u><u>(34,526)</u></u>

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2016

	ENTERPRISE FUNDS		
	FOOD SERVICE	DAY CARE FUND	TOTAL
ASSETS:			
Current Assets:			
Cash & Cash Equivalents	(29,383)	(5,060)	(34,443)
Accounts Receivable	45,944	5,060	51,004
Inventories for Consumption	6,651		6,651
Total Current Assets	23,212	0	23,212
Noncurrent Assets:			
Furniture & Equipment	505,691		505,691
Less: Accumulated Depreciation	(245,135)		(245,135)
Total Noncurrent Assets	260,556	0	260,556
TOTAL ASSETS	283,768	0	283,768
LIABILITIES:			
Current Liabilities:			
Account Payable	11,628		11,628
Total Current Liabilities	11,628	0	11,628
Net Position:			
Net Investment in Capital Assets	260,556		260,556
Restricted	11,584	0	11,584
Total Net Position	272,140	0	272,140
TOTAL LIABILITIES AND NET POSITION	283,768	0	283,768

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016

	ENTERPRISE FUNDS		
	FOOD SERVICE	DAY CARE FUND	TOTAL
OPERATING REVENUES:			
Lunchroom Sales	12,932		12,932
Other Operating Revenues	33,817	86,259	120,076
TOTAL OPERATING REVENUES	46,749	86,259	133,008
OPERATING EXPENSES:			
Salaries & Benefits	218,324	143,751	362,075
Contract Services	7,723	992	8,715
Materials & Supplies	313,213	938	314,151
Depreciation - Note F	35,100		35,100
Other Operating Expenses	703	1,365	2,068
TOTAL OPERATING EXPENSES	575,063	147,046	722,109
OPERATING INCOME(LOSS)	(528,314)	(60,787)	(589,101)
NONOPERATING REVENUES(EXPENSES):			
Federal Grants	418,831		418,831
State Grants	34,801	60,787	95,588
Donated Commodities	31,452		31,452
TOTAL NONOPERATING REVENUE	485,084	60,787	545,871
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(43,230)	0	(43,230)
CAPITAL CONTRIBUTIONS	0	0	0
CHANGE IN NET POSTION	(43,230)	0	(43,230)
TOTAL NET POSITION - BEGINNING	315,370	0	315,370
TOTAL NET POSITION - ENDING	272,140	0	272,140

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016

	<u>FOOD SERVICE</u>	<u>DAY CARE FUND</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from:			
Operating Revenue	46,749	89,350	136,099
Cash Paid to/for:			
Employees	(189,979)	(124,779)	(314,758)
Supplies	(275,395)	(976)	(276,371)
Other Activities	(8,426)	(2,357)	(10,783)
	<u>(427,051)</u>	<u>(38,762)</u>	<u>(465,813)</u>
Net Cash Provided (Used) by Operating Activities	(427,051)	(38,762)	(465,813)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:			
Federal Grants	372,887		372,887
State Grants	6,456	41,815	48,271
	<u>379,343</u>	<u>41,815</u>	<u>421,158</u>
Net Cash Provided by Non-Capital and Related Financing Activities	379,343	41,815	421,158
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	0	0	0
CASH FLOWS FROM INVESTING ACTIVITIES	<u>0</u>	<u>0</u>	<u>0</u>
Net Increase in Cash and Cash Equivalents	(47,708)	3,053	(44,655)
Balances, Beginning of Year	<u>18,325</u>	<u>(8,113)</u>	<u>10,212</u>
Balances, End of Year	<u>(29,383)</u>	<u>(5,060)</u>	<u>(34,443)</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:			
Operating Income (Loss)	(528,314)	(60,787)	(589,101)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities			
Depreciation	35,100		35,100
State On-Behalf Payments	28,345	18,972	47,317
Donated Commodities	31,452		31,452
Change in Assets and Liabilities:			
Inventory	(4,795)		(4,795)
Accounts Receivable		3,091	3,091
Accounts Payable	11,161	(38)	11,123
	<u>(427,051)</u>	<u>(38,762)</u>	<u>(465,813)</u>
Net Cash Provided (Used) by Operating Activities	(427,051)	(38,762)	(465,813)
Schedule of Non-Cash Transactions:			
Donated Commodities	31,452	0	31,452
State On-Behalf Payments	28,345	18,972	47,317

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2016

	<u>AGENCY FUNDS</u>		
	<u>SCHOOL ACTIVITY FUNDS</u>	<u>OTHER</u>	<u>TOTAL</u>
ASSETS:			
Cash and Cash Equivalents	<u>118,103</u>	<u>25,131</u>	<u>143,234</u>
TOTAL ASSETS	<u>118,103</u>	<u>25,131</u>	<u>143,234</u>
LIABILITIES:			
Due to Student Groups	<u>118,103</u>		<u>118,103</u>
TOTAL LIABILITIES	<u>118,103</u>	<u>0</u>	<u>118,103</u>
NET POSITION HELD IN TRUST	<u>0</u>	<u>25,131</u>	<u>25,131</u>

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016

	<u>PRIVATE PURPOSE TRUST FUNDS</u>
ADDITIONS:	
Net Interest and Investment Gains(Losses)	157
Donations	1,000
DEDUCTIONS:	
Supplies	32
Benefits Paid	<u>4,065</u>
Changes in Net Position	(2,940)
NET POSITION HELD IN TRUST - BEGINNING OF YEAR	<u>28,071</u>
NET POSITION HELD IN TRUST - END OF YEAR	<u><u>25,131</u></u>

See independent auditor's report and accompanying notes to financial statements.



FRANKFORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2016

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

The Frankfort Independent Board of Education (“Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Frankfort Independent Board of Education (“District”). The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Frankfort Independent Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organizations are included in the accompanying financial statements:

Frankfort Independent Board of Education Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Frankfort Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

Basis of Presentation

Government-Wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

**Fund Financial Statements** – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

### I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards and related notes. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
  1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a major fund of the District.
  3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- D. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on generally obligation notes payable, as required by Kentucky law. This is a major fund of the District.

### II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service is a major fund.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

### III. Fiduciary Fund Type (Agency Funds)

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

### Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Nonexchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

Proprietary Fund operating revenues are defined as revenues received from the direct purchases of products and services (i.e. food service). Non-operating revenues are not related to direct purchases of products; for the District, these revenues are typically investment income and state and federal grant revenues.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of costs, such as depreciation, are not recognized in governmental funds.

### Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2016, to finance the General Fund operations were \$0.834 per \$100 valuation for real property, \$0.834 per \$100 valuation for business personal property, and \$0.474 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial, and mixed gases.

### Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<b>Description</b>	<b>Governmental Activities Estimated Lives</b>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

### Interfund Balances

On fund financial statements, receivables and payable resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental and business-type activities columns of the statements of net position except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

### Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will received from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the amount “accumulated sick leave payable” in the general fund. The noncurrent portion of the liability is reported as a reserve of fund balance.

### Budgetary Process

**Budgetary Basis of Accounting:** The District’s budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

### Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

### Inventories

On government-wide financial statements, inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method.

### Investments

The private purpose trust funds record investments at their quoted market prices. All realized gains and losses and changes in fair value are recorded in the Statement of Changes in Fiduciary Net Position.

### Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

### Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Superintendent.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District uses *restricted/committed* amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as grant agreements requiring dollar for dollar spending. Additionally, the District would first use *committed*, then *assigned*, and lastly *unassigned* amounts for unrestricted fund balance when expenditures are made.

The District does not have a formal minimum fund balance policy.

### **Major Special Revenue Fund**

### **Revenue Source**

Special Revenue

State, Local and Federal Grants

### **Net Position**

Net Position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

### **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

### **Contributions of Capital**

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

### **NOTE B – ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

### **NOTE C – CASH AND CASH EQUIVALENTS**

**Custodial Credit Risk - Deposits.** Custodial Credit is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities.

At year-end, the carrying amount of the District's total cash and cash equivalents was \$1,241,624. Of the total cash balance, \$250,000 was covered by Federal Depository Insurance, \$991,624 was covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

Cash and cash equivalents at June 30, 2016, consisted of the following:

	<b>Bank Balance</b>	<b>Book Balance</b>
Community Trust Bank	1,538,409	1,214,624
Breakdown per financial statements:		
Governmental Funds		1,132,833
Proprietary Funds		<u>(34,443)</u>
Subtotal		1,098,390
Fiduciary Funds		25,131
Agency Funds		<u>118,103</u>
Total Cash and Cash Equivalents All Funds		<u><u>1,241,624</u></u>

### **NOTE D – INVESTMENTS**

The District held no investments on June 30, 2016.



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE E – LONG TERM OBLIGATIONS

The amount shown in the accompanying financial statements as bond obligations represents the District's future obligations to make payments relating to the bonds issued by the Frankfort Independent School District Finance Corporation aggregating \$6,970,000.

The original amount of each issue and interest rates are summarized below:

2006 Unrefunded	435,000	3.70% - 4.4%
2009	1,115,000	2.00% - 3.00%
2014	1,910,000	1.20% - 3.375%
2014 Refunding	1,235,000	1.20% - 3.375%
2014 Refunding	2,275,000	1.00% - 4.00%

The District, through the General Fund (including utility taxes and the Support Education Excellence (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Frankfort Independent School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local schools districts in meeting school construction needs. The table sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bonds issued. The Kentucky School Construction Commission's participation is limited to the biennial budget period of the Commonwealth of Kentucky with the right reserved by the Kentucky School Construction Commission to terminate the commitment to pay the agreed participation every two years. The obligation of the Kentucky School Construction Commission to make the agreed payments automatically renews each two years for a period of two years unless the Kentucky School Construction Commission gives notice of its intention not to participate not less than sixty days prior to the end of its biennium.

# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the maturity, the minimum obligations of the District, including amounts to be paid by the Commission at June 30, 2016, for debt service (principal and interest) are as follows:

Year	Principal	Interest	Participation	District's Portion
2016-17	380,000	155,295	174,687	360,608
2017-18	395,000	146,036	174,687	366,349
2018-19	405,000	136,181	174,687	366,494
2019-20	420,000	125,936	174,687	371,249
2020-21	435,000	116,895	174,687	377,207
2021-22	440,000	107,701	174,687	373,014
2022-23	450,000	98,354	174,687	373,666
2023-24	460,000	88,403	174,688	373,714
2024-25	470,000	78,224	174,688	373,536
2025-26	490,000	65,846	174,688	381,159
2026-27	480,000	51,696	156,126	375,572
2027-28	210,000	41,691	109,003	142,688
2028-29	205,000	34,814	109,003	130,811
2029-30	220,000	27,895	109,003	138,892
2030-31	130,000	20,470	109,003	41,467
2031-32	135,000	15,855	109,003	41,852
2032-33	145,000	11,063	109,002	47,060
2033-34	<u>150,000</u>	<u>5,625</u>	<u>109,003</u>	<u>46,623</u>
	<u>6,020,000</u>	<u>1,327,980</u>	<u>2,666,019</u>	<u>4,681,961</u>

Long-term liability activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government</b>					
Governmental Activities:					
Revenue Bonds Payable	6,395,000	0	375,000	6,020,000	380,000
Capital Lease Obligations	5,941	0	5,941	0	0
KISBIT Assessment	153,495	0	39,120	114,375	39,120
Accrued Sick Leave	<u>286,479</u>	<u>97,207</u>	<u>0</u>	<u>383,686</u>	<u>82,462</u>
Governmental Activities					
Long-Term Liabilities	<u>6,840,915</u>	<u>97,207</u>	<u>420,061</u>	<u>6,518,061</u>	<u>501,582</u>

# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

## NOTE F - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE
<b>GOVERNMENTAL ACTIVITIES:</b>				
Non-Depreciable Assets:				
Land	798,379			798,379
Depreciable Assets:				
Land Improvements	222,610			222,610
Buildings & Building Improvements	12,795,986			12,795,986
Technology Equipment	1,115,906			1,115,906
Vehicles	905,761			905,761
General Equipment	173,537			173,537
<b>TOTAL AT HISTORICAL COST</b>	<b>16,012,179</b>	<b>0</b>	<b>0</b>	<b>16,012,179</b>
<b>LESS ACCUMULATED DEPRECIATION FOR:</b>				
Land Improvements	218,490	916		219,406
Buildings & Building Improvements	5,050,980	397,988		5,448,968
Technology Equipment	1,107,211	7,359		1,114,570
Vehicles	712,698	39,107		751,805
General Equipment	128,884	4,572		133,456
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>7,218,263</b>	<b>449,942</b>	<b>0</b>	<b>7,668,205</b>
<b>GOVERNMENTAL ACTIVITIES CAPITAL NET</b>	<b>8,793,916</b>	<b>(449,942)</b>	<b>0</b>	<b>8,343,974</b>
<b>PROPRIETARY ACTIVITIES:</b>				
Depreciable Assets:				
Technology Equipment	13,975			13,975
General Equipment	491,716			491,716
<b>TOTALS AT HISTORICAL COST</b>	<b>505,691</b>	<b>0</b>	<b>0</b>	<b>505,691</b>
<b>LESS ACCUMULATED DEPRECIATION FOR:</b>				
Technology Equipment	13,288	601		13,889
General Equipment	196,747	34,499		231,246
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>210,035</b>	<b>35,100</b>	<b>0</b>	<b>245,135</b>
<b>PROPRIETARY ACTIVITIES CAPITAL NET</b>	<b>295,656</b>	<b>(35,100)</b>	<b>0</b>	<b>260,556</b>
<b>DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:</b>				
Instructional				276,578
Student Support Services				2,375
Staff Support Services				2,437
District Administration				8,790
School Administration				462
Plant Operation & Maintenance				123,723
Student Transportation				35,577
<b>TOTAL</b>				<b>449,942</b>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE G – RETIREMENT PLANS

The District's employees are provided with two pension plans, based on each position's college degree requirement. The County Employees Retirement System covers employees whose position does not require a college degree or teaching certification. The Kentucky Teachers Retirement System covers positions requiring teaching certification or otherwise requiring a college degree.

#### **General information about the County Employees Retirement System Non-Hazardous ("CERS")**

*Plan description*—Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

*Benefits provided*—CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old OR age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service or 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old OR age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not Available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Contributions—Required contributions by the employee are based on the tier:

	Required Contributions
Tier 1	5%
Tier 2	5% +1% for insurance
Tier 3	5% +1% for insurance

### **General information about the Teachers' Retirement System of the State of Kentucky ("KTRS")**

*Plan description*—Teaching certified employees of the District and other employees whose positions require at least a college degree are provided pensions through the Teachers' Retirement System of the State of Kentucky (KTRS)—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at [http://www.ktrs.ky.gov/05\\_publications/index.htm](http://www.ktrs.ky.gov/05_publications/index.htm).

*Benefits provided*—For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete 27 years of Kentucky service.

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years.

In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. KTRS also provides disability benefits for vested employees at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees and \$5,000 for retired or disabled employees.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

**Contributions**—Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university employees are required to contribute 12.855% of their salaries to the System. University employees are required to contribute 10.40% of their salaries. KRS 161.580 allows each university to reduce the contribution of its employees by 2.215%; therefore, university employees contribute 7.68% of their salary to KTRS.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 12.355% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 13.355% for those hired after July 1, 2008. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 16.105% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

### **Medical Insurance Plan**

*Plan description*—In addition to the pension benefits described above, KRS 161.675 requires KTRS to provide post-employment healthcare benefits to eligible employees and dependents. The KTRS Medical Insurance Fund is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to employees under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired employees and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

*Funding policy*—In order to fund the post-retirement healthcare benefit, six percent (6%) of the gross annual payroll of employees before July 1, 2008 is contributed. Three percent (3%) is paid by member contributions and three quarters percent (.75%) from Commonwealth appropriation and two and one quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

### **Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2016, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for KTRS because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

District's proportionate share of the CERS net pension liability	\$ 2,374,243
Commonwealth's proportional share of the KTRS net pension liability associated with the District	<u>31,369,530</u>
	<u>\$ 33,743,773</u>

The net pension liability for each plan was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2015, the District's proportion was 0.055221% percent.

For the year ended June 30, 2016, the District recognized pension expense of \$241,018 related to CERS and \$648,766 related to KTRS. The District also recognized revenue of \$648,766 for KTRS support provided by the Commonwealth. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 19,731	\$ -
Changes of assumptions	239,416	-
Net difference between projected and actual earnings on pension plan investments	21,283	164,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-	36,738
District contributions subsequent to the measurement date	<u>241,923</u>	<u>-</u>
Total	<u>\$ 522,353</u>	<u>\$ 200,738</u>

\$241,923 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

	<u>Year ended June 30:</u>
2017	26,802
2018	26,802
2019	26,802
2020	(4,970)
2021	4,256

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

*Actuarial assumptions*—The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>	<u>KTRS</u>
Inflation	3.25%	3.50%
Projected salary increases	4.00%	4.0-8.2%
Investment rate of return, net of investment expense & inflation	7.50%	7.50%

For CERS, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

For KTRS, Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2011 and the next experience study is scheduled to be conducted in 2016.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the system. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

For KTRS, the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's investment consultant, are summarized in the following table:



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	2.0%	1.5%
Total	100.0%	

*Discount rate*—For CERS, the discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For KTRS, the discount rate used to measure the total pension liability was 4.88%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2039 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2038 and a municipal bond index rate of 3.82% was applied to all periods of projected benefit payments after 2038. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

*Sensitivity of CERS and KTRS proportionate share of net pension liability to changes in the discount rate*—The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.5%	7.5%	8.5%
District's proportionate share of net pension liability	3,031,016	2,374,213	1,811,775
KTRS	3.88%	4.88%	5.88%
District's proportionate share of net pension liability	0	0	0

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

*Pension plan fiduciary net position*—Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial reports of both CERS and KTRS.

### NOTE H – COMMITMENTS

Commitments under operating lease agreements for office equipment provide the minimum future rental payments as of June 30, 2016, as follows:

Year ending June 30:

2017	7,794
2018	6,298
2019	<u>4,429</u>
Total minimum payments	<u>18,521</u>

### NOTE I – CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor’s review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected, to be significant. Continuation of the District’s grant programs is predicated upon the grantors’ satisfaction that the funds provided are being spent as intended and the grantors’ intent to continue their programs.

### NOTE J – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively related which include Workers’ Compensation insurance.

### NOTE K – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers’ compensation, errors and omissions, and general liability coverage, the District obtains quotes from commercial insurance companies. Currently the District maintains insurance coverage through the Netherlands Insurance Company and Catlin Indemnity Company.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE L – DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of expenditures over revenues resulting in a corresponding reduction of fund balance:

Construction Fund	35,374
Debt Service Fund	370,380
Special Revenue Fund	17,381
Food Service	43,230

### NOTE M – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the School District at risk for a substantial loss (contingency).

### NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	17,381
Operating	General	Debt Service	Debt Service	104,182
Operating	Capital Outlay	Debt Service	Debt Service	72,420
Operating	Building Fund	Debt Service	Debt Service	<u>193,778</u>
		Total Transferred Funds		<u>387,761</u>

### NOTE O – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2016.

### NOTE P – SUBSEQUENT EVENTS

Management has reviewed subsequent events through October 28, 2016. There are no material subsequent events to disclose.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE Q – ON-BEHALF PAYMENT

For the year ended June 30, 2016, \$1,751,417 in on-behalf payments were made by the Commonwealth of Kentucky for the benefit of the District. Payments for life insurance, health insurance, Kentucky teacher retirement matching pension contributions, and administrative fees were paid by the State for the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts. These payments were recorded as follows:

Kentucky Teachers Retirement System (GASB 68 Schedule A)	\$ 648,766
Health Insurance	881,067
Life Insurance	1,420
Administrative Fee	10,470
HRA/Dental/Vision	39,988
Federal Reimbursement	(50,853)
Technology	45,872
SFCC Debt Service Payments	<u>174,687</u>
Total	<u>\$ 1,751,417</u>

### NOTE R – KSBIT ASSESSMENT

As of June 30, 2013, Kentucky School Boards Insurance Trust (KSBIT) was disbanded. On January 14, 2013, school districts in Kentucky were notified that if they had been participating members in KSBIT Workers' Compensation Self-Insurance Pool or its Property and Liability Self-Insurance Pool, they would be required to pay an assessment to repay their portion of the losses incurred by KSBIT. The total assessment for all participants is expected to be between \$50 million and \$60 million. As of June 30, 2016, Frankfort Independent School District's remaining assessment is valued at \$114,375. This has been recorded as a long-term liability on the government-wide financial statements. However, the District may be given an additional assessment in the future if KSBIT incurs additional losses as a result of ongoing litigation. The District has elected to pay this assessment over a seven year period with the final payment in fiscal year 2021.

<u>Year Ending June 30,</u>	<u>KSBIT Assessment Payable</u>
2017	39,120
2018	18,814
2019	18,814
2020	18,814
2021	<u>18,813</u>
Total	<u>114,375</u>

## REQUIRED SUPPLEMENTARY INFORMATION

FRANKFORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2016

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	2,594,465	2,594,465	2,645,155	50,690
Other Local Sources	4,500	4,500	6,360	1,860
State Sources	5,020,164	5,020,164	4,949,651	(70,513)
Federal Sources	0	0	0	0
Other Sources	154,500	154,500	201,573	47,073
TOTAL REVENUES	7,773,629	7,773,629	7,802,739	29,110
EXPENDITURES:				
Instructional	4,497,361	4,497,361	4,377,675	119,686
Student Support Services	460,272	460,272	430,073	30,199
Staff Support Services	435,733	435,733	345,817	89,916
District Administration	273,003	273,003	280,693	(7,690)
School Administration	554,452	554,452	537,598	16,854
Business Support Services	370,295	370,295	335,448	34,847
Plant Operation & Maintenance	844,830	844,830	789,230	55,600
Student Transportation	337,861	337,861	278,128	59,733
Central Office				0
Food Service Operations				0
Community Service Operations				0
Facility Acquisition & Construction				0
Other	623,360	623,360	121,563	501,797
TOTAL EXPENDITURES	8,397,167	8,397,167	7,496,225	900,942
NET CHANGE IN FUND BALANCE	(623,538)	(623,538)	306,514	930,052
FUND BALANCES - BEGINNING	623,538	623,538	623,538	0
FUND BALANCES - ENDING	0	0	930,052	930,052

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND  
FOR THE YEAR ENDED JUNE 30, 2016

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Other Local Sources	17,381	17,381	17,381	0
State Sources	389,612	389,612	401,375	11,763
Federal Sources	639,056	639,056	644,081	5,025
Other Sources	48,116	50,600	29,213	(21,387)
TOTAL REVENUES	1,094,165	1,096,649	1,092,050	(4,599)
EXPENDITURES:				
Instructional	793,001	795,485	803,147	(7,662)
Student Support Services	25,000	25,000	25,000	0
Staff Support Services	177,454	177,454	165,182	12,272
District Administration				0
School Administration				0
Business Support Services				0
Plant Operation & Maintenance				0
Student Transportation	18,535	18,535	18,976	(441)
Central Office				0
Community Service Operations	80,175	80,175	79,745	430
Facility Acquisition & Construction				0
Other				0
TOTAL EXPENDITURES	1,094,165	1,096,649	1,092,050	4,599
NET CHANGE IN FUND BALANCE	0	0	0	0
FUND BALANCES - BEGINNING	0	0	0	0
FUND BALANCES - ENDING	0	0	0	0

See accompanying auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
KENTUCKY TEACHERS' RETIREMENT SYSTEM  
FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>
District's proportion of net pension liability	0.0%	0.0%
District's proportionate share of the net pension liability	\$ 0	0
State of Kentucky's share of the net pension liability associated with the District	<u>27,742,148</u>	<u>31,369,530</u>
Total	<u>\$ 27,742,148</u>	<u>31,369,530</u>
District's covered-employee payroll	\$ 4,326,318	4,103,780
District's proportionate share of the net pension liability as a percentage of its covered-payroll	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	45.59%	44.70%

*Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.*



FRANKFORT INDEPENDENT SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
COUNTY EMPLOYEES RETIREMENT SYSTEM  
FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>
District's proportion of net pension liability	.056646%	.055221%
District's proportionate share of the net pension liability	\$ 1,838,000	2,374,243
State of Kentucky's share of the net pension liability associated with the District	<u>0.00</u>	<u>0.00</u>
Total	<u>\$ 1,838,000</u>	<u>2,374,243</u>
District's covered-employee payroll	\$ 1,309,514	1,139,555
District's proportionate share of the net pension liability as a percentage of its covered-payroll	140.39%	208.35%
Plan fiduciary net position as a percentage of the total pension liability	65.96%	63.46%

*Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.*

FRANKFORT INDEPENDENT SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS TO THE  
COUNTY EMPLOYEES RETIREMENT SYSTEM  
FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>
Contractually required contributions (actuarially determined)	\$ 231,390	\$ 194,409
Contributions in relation to the actuarially determined contributions	<u>231,390</u>	<u>194,409</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>
Covered employee payroll	\$1,309,514	\$1,139,555
Contributions as a percentage of Covered employee payroll	17.67%	17.06%

*Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.*

FRANKFORT INDEPENDENT SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS TO THE  
KENTUCKY TEACHERS RETIREMENT SYSTEM  
FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>
Contractually required contributions (actuarially determined)	\$ 151,312	\$ 170,085
Contributions in relation to the actuarially determined contributions	<u>151,312</u>	<u>170,085</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>
Covered employee payroll	\$ 4,326,318	\$ 4,103,780
Contributions as a percentage of Covered employee payroll	3.50%	4.14%

*Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.*

FRANKFORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
FOR THE YEAR ENDED JUNE 30, 2016

**KENTUCKY TEACHERS' RETIREMENT SYSTEM**

**NOTE A – CHANGES OF ASSUMPTIONS**

The last experience investigation was prepared for the five-year period ending June 30, 2010, and based on the results of an actuarial study and adopted by the board on December 19, 2011.

**NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS**

The actuarially determined total pension liability is calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported. The following actuarial methods and assumptions were used to determine the contractually required contributions for the year ended June 30, 2016 reported in that schedule:

Valuation Date	June 30, 2014
Inflation	3.50 percent
Salary Increases	4.00 – 8.20 percent
Long-Term Investment Rate of Return, Net of Pension Plan Investment Expense, Including Inflation	7.50 Percent
Municipal Bond Index Rate:	
Prior Measurement Date	4.35 Percent
Measurement Date	3.82 Percent
Year FNP is Projected to be Depleted	2039
Single Equivalent Interest Rate, Net of Pension Plan Investment Expense, Including Inflation:	
Prior Measurement Date	5.23 percent
Measurement Date	4.96 Percent
Post-Retirement Benefit Increases	1.50% annually

FRANKFORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
FOR THE YEAR ENDED JUNE 30, 2016

**COUNTY EMPLOYEES RETIREMENT SYSTEM**

**NOTE A – CHANGES OF ASSUMPTIONS**

The last experience investigation was prepared for the five-year period ending June 30, 2013, and based on the results of an actuarial study and adopted by the board.

**NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS**

The actuarially determined contribution rates in the schedule are determined on a biennial basis beginning with the fiscal years ended 2014 and 2015, determined as of July 1, 2013. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine the rates reported in that schedule:

Valuation Date	June 30, 2015
Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25 percent
Salary Increase	4.0 percent, average, including inflation
Investment Rate of Return	7.5 percent, net of pension plan investment expense, including inflation

## OTHER SUPPLEMENTARY INFORMATION

FRANKFORT INDEPENDENT SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2016

	SEEK CAPITAL OUTLAY FUND	CONSTRUCTION FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
ASSETS:			
Cash & Cash Equivalents	8,093	104,453	112,546
TOTAL ASSETS	<u>8,093</u>	<u>104,453</u>	<u>112,546</u>
LIABILITIES AND FUND BALANCES:			
Accounts Payable		6,345	6,345
Total Liabilities	<u>0</u>	<u>6,345</u>	<u>6,345</u>
Fund Balance:			
Restricted for:			
SFCC Escrow	8,093		8,093
Capital Projects		98,108	98,108
Total Fund Balance	<u>8,093</u>	<u>98,108</u>	<u>106,201</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>8,093</u>	<u>104,453</u>	<u>112,546</u>

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCES  
NON-MAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016

	SEEK CAPITAL OUTLAY FUND	CONSTRUCTION FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
REVENUES:			
Taxes	72,420		72,420
Earnings on Investments		641	641
TOTAL REVENUES	<u>72,420</u>	<u>641</u>	<u>73,061</u>
EXPENDITURES:			
Support Services:			
Plant Operation & Maintenance		36,015	36,015
TOTAL EXPENDITURES	<u>0</u>	<u>36,015</u>	<u>36,015</u>
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	72,420	(35,374)	37,046
OTHER FINANCING SOURCES(USES):			
Operating Transfers Out	(72,420)		(72,420)
TOTAL OTHER FINANCING SOURCES(USES)	<u>(72,420)</u>	<u>0</u>	<u>(72,420)</u>
NET CHANGE IN FUND BALANCES	<u>0</u>	<u>(35,374)</u>	<u>(35,374)</u>
FUND BALANCES - BEGINNING	<u>8,093</u>	<u>133,482</u>	<u>141,575</u>
FUND BALANCES - ENDING	<u><u>8,093</u></u>	<u><u>98,108</u></u>	<u><u>106,201</u></u>

See independent auditor's report and accompanying notes to financial statements.



FRANKFORT INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES  
 AGENCY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2016

	FUND BALANCE JULY 1, 2015	REVENUES	EXPENDITURES	FUND BALANCE JUNE 30, 2016
Frankfort Independent High School	84,694	184,077	198,697	70,074
Capital City Preparatory	3,285	1,606	2,801	2,090
Second Street Elementary School	25,756	92,541	72,358	45,939
Total Due to Student Groups	<u>113,735</u>	<u>278,224</u>	<u>273,856</u>	<u>118,103</u>

See independent accountant's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE  
HIGH SCHOOL ACTIVITY FUND  
FOR THE YEAR ENDED JUNE 30, 2016

	<u>CASH BALANCE JULY 1, 2015</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>CASH BALANCE JUNE 30, 2016</u>	<u>ACCOUNTS RECEIVABLE JUNE 30, 2016</u>	<u>ACCOUNTS PAYABLE JUNE 30, 2016</u>	<u>FUND BALANCE JUNE 30, 2016</u>
Academic Team	168	96	168	96			96
PSAT Fees	26	420	446	0			0
Capitolian	3,372	3,268	3,303	3,337			3,337
Faculty Concessions	1,070	3,064	2,683	1,451			1,451
Interest	462	431	0	893			893
Graduation	0	1,700	1,700	0			0
Guidance	250	876	188	938			938
Miscellaneous	9,569	5,725	10,959	4,335			4,335
AP Fees	26	5,011	4,990	47			47
SBDM	3,558	1,000	2,948	1,610			1,610
Student Locks	5	0	0	5			5
C.S. Boyd Scholarship	3,687	0	566	3,121			3,121
Student Netbooks	128	2,519	2,647	0			0
Fees	160	3,713	3,873	0			0
General Athletics	2,135	14,118	15,800	453			453
Baseball	5,506	4,486	6,644	3,348			3,348
Boys Basketball	1,648	15,303	12,773	4,178			4,178
Girls Basketball	2,623	6,492	6,270	2,845			2,845
Cheerleaders	406	1,072	755	723			723
Cross Country	1,383	0	678	705			705
Football	2,156	22,512	21,039	3,629			3,629
Boys Golf	320	0	0	320			320
Girls Golf	62	0	0	62			62
Boys Soccer	1,863	14,281	9,816	6,328			6,328
Girls Soccer	(181)	6,064	4,494	1,389			1,389
Girls Softball	1,059	5,561	5,050	1,570			1,570
Boys Tennis	843	600	467	976			976
Girls Tennis	157	500	221	436			436
Track	1,120	897	1,325	692			692
Swim Team	182	78	260	0			0
Boys Soccer Scotland	10,554	14,548	22,607	2,495			2,495
Athletic Tourney	2,338	6,130	4,807	3,661			3,661
Athletic Fee	0	990	870	120			120
Volleyball	84	200	620	(336)			(336)
Sign Program	5,155	600	5,280	475			475
Preseason Tournament	1,000	0	1,000	0			0
High School Soccer All A	813	0	813	0			0
Art Honor Society	568	0	0	568			568
Beta Club	760	420	700	480			480
Earth Club	0	2,530	2,419	111			111
Student YMCA	65	8,577	8,416	226			226
Drama Club	5,341	4,624	4,147	5,818			5,818
Spanish Honor Society	282	2,609	2,775	116			116

Interact	294	0	0	294			294
National Honor Society	86	105	178	13			13
Pep Club	112	3,238	2,411	939			939
Student Council	2,799	0	1,205	1,594			1,594
Miss FHS Pag	650	415	294	771			771
Archery Club	108	447	403	152			152
Dance Club	31	200	160	71			71
Class of 2015	33	0	0	33			33
Class of 2016	1,211	1,839	1,919	1,131			1,131
Class of 2017	1,007	4,367	4,717	657			657
Class of 2018	195	0	0	195			195
Class of 2019	0	975	150	825			825
Project Graduation	0	150	0	150			150
Library	757	0	0	757			757
School Concessions	1,553	0	1,553	0			0
Athletic Concessions	749	7,380	7,235	894			894
Art	0	603	603	0			0
Band	3,742	9,707	10,180	3,269			3,269
Math	0	140	120	20			20
PE/Health	(135)	135	0	0			0
Chemistry	60	270	300	30			30
Special ED	530	0	0	530			530
Aviation	168	1,706	1,572	302			302
Science Academy	6	20	0	26			26
Biology	15	165	180	0			0
Photography	0	200	0	200			200
Total All Funds	84,694	193,077	207,697	70,074	0	0	70,074
Interfund Transfers		(9,000)	(9,000)	0	0	0	0
Total	84,694	184,077	198,697	70,074	0	0	70,074

FRANKFORT INDEMENTENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>PASS THROUGH NUMBER (if applicable)</u>	<u>MUNIS PROJECT NUMBER</u>	<u>EXPENDITURES</u>
<u>U.S. Department of Education</u>				
Passed-Through Department of Education				
Title I - Grants to Local Educational Agencies	84.010	3100002	310A	17,797
Title I - Grants to Local Educational Agencies	84.010	3100002	310B	311,321
Title I Cluster				<u>329,118</u> *
 Race to the Top	 84.395	 3960002	 4521	 10,385
 Title II - Part A -Teacher Quality Enhancement Grants	 84.367	 3230002	 401A	 1,057
 IDEA - Special Education - Grants to State	 84.027	 3810002	 337B	 281,270
IDEA - Special Education - Grants to State	84.027	3810002	337A	101
IDEA - Special Education - Preschool Grants	84.173	3800002	343A	370
IDEA - Special Education - Preschool Grants	84.173	3800002	343B	21,780
Special Education Cluster				<u>303,521</u>
 Total U.S. Department of Education				<u>644,081</u>
 <u>U.S. Department of Agriculture</u>				
Passed-Through State Department of Education				
National School Lunchroom	10.555	7750002-15	7750002-15	59,801
National School Lunchroom	10.555	7750002-16	7750002-16	190,786
School Breakfast Program	10.553	7760005-15	7760005-15	21,866
School Breakfast Program	10.553	7760005-16	7760005-16	80,773
Child Nutrition Cluster				<u>353,226</u>
 Child and Adult Food Care Program	 10.558	 7790021-15	 7790021-15	 3,501
Child and Adult Food Care Program	10.558	7790021-16	7790021-16	15,250
Child and Adult Food Care Program	10.558	7800016-15	7800016-15	236
Child and Adult Food Care Program	10.558	7800016-16	7800016-16	1,003
Child and Adult Food Care Program				<u>19,990</u>
 Pass-Through State Department of Agriculture				
Food Distribution	10.565	057502-10	057502-10	31,452
Total U.S. Department of Agriculture				<u>404,668</u>
 Total Federal Financial Assistance				<u><u>1,048,749</u></u>

\* Tested as major program

FRANKFORT INDEPENDENT SCHOOL DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016

**NOTE A – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Frankfort Independent School District under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Frankfort Independent School District, it is not intended to and does not present the financial position, changes in net asset, or cash flows of Frankfort Independent School District.

**NOTE B – FOOD DISTRIBUTION**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and/or OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE C – FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

FRANKFORT INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of audit issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes      X   No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes      X   None Reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes      X   No

**Federal Awards**

Internal control over major programs?

- Material weakness(es) identified? \_\_\_\_\_ Yes      X   No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes      X   None Reported

Type of auditor’s report issued on compliance for major programs (unmodified):

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? \_\_\_\_\_ Yes      X   No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title 1 Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?   X   Yes    \_\_\_\_\_ No

**Section II – Financial Statement of Findings**

No matters were reported.

**Section III – Federal Award Findings and Questioned Costs**

No matters were reported.

FRANKFORT INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
JUNE 30, 2016

There were no prior year audit findings.

**WHITE AND COMPANY, P.S.C.**  
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October 28, 2016

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Members of the Board of Education  
Frankfort Independent School District  
959 Leestown Lane  
Frankfort, KY 40601

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract*, *Audit Acceptance Statement*, *AFR and Balance Sheet*, *Statement of Certification*, and *Audit Report*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Frankfort Independent School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Frankfort Independent School District's basic financial statements, and have issued our report thereon dated October 28, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Frankfort Independent School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Frankfort Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Frankfort Independent School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Frankfort Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no material instances of noncompliance of specific state statutes or regulation identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

We noted certain matters that we reported to management of Frankfort Independent School District in a separate letter dated October 28, 2016.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants

**WHITE AND COMPANY, P.S.C.**  
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October 28, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED  
BY THE UNIFORM GUIDANCE**

Members of the Board of Education  
Frankfort Independent School District  
959 Leestown Lane  
Frankfort, KY 40601

**Report on Compliance for Each Major Federal Program**

We have audited Frankfort Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Frankfort Independent School District's major federal programs for the year ended June 30, 2016. Frankfort Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, contract, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Frankfort Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and *Appendix I to the Independent Auditor's Contract – Audit Extension Request, Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract, Audit Acceptance Statement, AFR and Balance Sheet, Statement of Certification, and Audit Report*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Frankfort Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Frankfort Independent School District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Frankfort Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

### **Report on Internal Control Over Compliance**

Management of Frankfort Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Frankfort Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Frankfort Independent School District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Frankfort Independent School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Frankfort Independent School District's basic financial statements. We issued our report thereon dated October 28, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from

and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants

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October 28, 2016

**MANAGEMENT LETTER**

Members of the Board of Education  
Frankfort Independent School District  
959 Leestown Lane  
Frankfort, KY 40601

In planning and performing our audit of the financial statements of Frankfort Independent School District for the year ended June 30, 2016, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our professional standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We feel that the District's financial statements are free of material misstatement. However, we offer the following suggestions that we feel will strengthen your organization's internal control structure.

In addition, we have reviewed recommendations made by the prior auditors in the audit report for the year ended June 30, 2015, and we have reviewed management's responses to those recommendations. Our findings based upon those prior year recommendations are also summarized below.

Prior Year Recommendation:

During the audit of the school activity fund disbursements, there were instances where disbursements were made without supporting invoices for the transaction. The Redbook requires that all disbursements be supported by proper documentation prior to release of funds.

Current Year Finding:

No matters were noted regarding lack of supporting invoices.

Current Year Recommendation:

During the audit of the district level disbursements, it was noted that four expenditures were made without a purchase order being prepared or approved for the disbursements. We recommend that all expenditures requiring an approved purchase order have a properly approved purchase order prior to a purchase being made.

Management Response:

We will take measures to ensure that all purchases requiring an approved purchase order have such prior to the purchase being made.

We would like to offer our assistance throughout the year if and when new or unusual situations arise. Our awareness of new developments when they occur would help to ensure that the District is complying with requirements such as those mentioned above.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with various District personnel, and we will be pleased to perform any additional study of this matter or to assist you in implementing the recommendation.

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants

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October 28, 2016

Members of the Board of Education  
Frankfort Independent School District  
959 Leestown Lane  
Frankfort, KY 40601

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Frankfort Independent School District for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, Government Auditing Standards and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 20, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Auditing Findings:

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Frankfort Independent School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016. We noted no transactions entered into by Frankfort Independent School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the sick leave liability is based on current pay rates and those currently eligible for retirement. We evaluated the key factors and assumptions used to develop the sick leave liability in determining that it is reasonable in relation to the financial statements taken as a whole.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management had corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 28, 2016.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Frankfort Independent School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were not such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Frankfort Independent School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

We applied certain limited procedures to management's discussion and analysis and budgetary comparison information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the budgetary comparison information on pages 42 and 43, or on the schedules of the district's proportionate share of net pension liabilities on pages 44 and 45, or on the schedules of contributions to the County Employees Retirement Plan and the Kentucky Teachers Retirement System on pages 46 and 47, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



Restriction on Use

This information is intended solely for the use of Members of the Board of Education and management of Frankfort Independent School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants